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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

REVISED BUDGET ESTIMATES FOR THE BIENNIUM 1996-1997

Report of the Administrator

SUMMARY

The present report contains the first revision of the budget estimates of the United Nations Development Programme for the 1996-1997 biennium. The revised estimates for the budget component relating to core activities amount to $376.8 million gross and $338.8 million net. In net terms, this represents an increase of $0.8 million (0.3 per cent) in relation to the original appropriation approved in 1995. The estimates incorporate a volume increase as a result of the establishment of a country office in Bosnia and Herzegovina pursuant to Executive Board decision 96/11. The revised estimates for the budget component relating to Programme Support and Development Activities amount to $179.6 million. This represents an increase of $1.4 million (0.8 per cent). This component includes support to the operational activities of the United Nations. Total revised estimates for the budget components financed from UNDP resources thus amount to $556.5 million gross or $518.5 million net. Total revised estimates for the budget components relating to the Funds amount to $22.7 million. This represents an increase of $0.03 million (0.1 per cent). The revised estimates for all budget components combined and financed from the resources of UNDP and the Funds thus amount to $579.1 million gross and $541.1 million net. In net terms, this represents a total increase of $2.3 million or 0.4 per cent.

The present document also contains reports that have been prepared in compliance with requests by the Executive Board.

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INTRODUCTION

1. The Administrator hereby presents the first revision of the budget estimates for the biennium 1996-1997. These revised estimates include the following elements:

(a) Volume and cost adjustments relating to the 1996-1997 budget for UNDP core activities;

(b) Volume and cost adjustments relating to the 1996-1997 budget for UNDP programme support and development activities (PSDA); this component includes the costs of country offices that relate to the support being provided to the operational activities of the United Nations as a whole;

(c) Volume and cost adjustments relating to the 1996-1997 budgets for the Funds, i.e., the United Nations Capital Development Fund (UNCDF), the United Nations Revolving Fund for Natural Resource Exploration/the United Nations Fund for Science and Technology for Development (UNRFNRE/UNFSTD), the Office to Combat Desertification and Drought (UNSO) and the United Nations Development Fund for Women (UNIFEM);

(d) Other matters, including reports in response to requests by the Executive Board and relating to: (i) the review of the principles and criteria for determining the amounts to be reimbursed by host Governments as contributions towards the cost of country offices (95/28, para. 31); (ii) the assessment of the impact of decision 95/28 on the organizational capacity of UNDP (95/28, para. 11); (iii) the use and status of the reserves that were established relating to staff separations and transitional measures (95/28, para. 17); (iv) pilot arrangements relating to reclassifications (95/28, para. 50); and (v) Office of United Nations System Support and Services (OUNS) (96/21, paras. 4 and 5).

2. In line with Executive Board decision 93/35, a statement of UNDP projected income for the 1996-1997 biennium is presented in the form of a chart in the annex to the present document. Information relating to income and expenditure is also contained in the annual review of the financial situation, 1995 (DP/1996/28).

I. REVISED 1996-1997 BUDGET ESTIMATES

A. Volume adjustments

1. Resources of UNDP

(a) Core activities

3. In its decision 96/11, the Executive Board welcomed the decision of the Administrator to establish a UNDP country office in Bosnia and Herzegovina as soon as possible. The Administrator, in his oral presentation to the Executive Board at its second session 1996, informed the Board that steps were being taken

to establish the office. The budget for the country office in Bosnia and Herzegovina is now being incorporated into the 1996-1997 biennial budget and takes into account the special circumstances prevailing in the country. The destruction of the country's service capacity and the present state of emergency have a direct impact on the operating costs of the office.

4. The Administrator is proposing: one D-2 post for the Resident Coordinator/ Resident Representative; two Deputy Resident Representative posts, at the P-5 and P-4 levels for programme and administration respectively; three National Officer posts and 10 General Service posts. The Administrator estimates the total cost at $2.4 million for the biennium, including recurrent general operating and start-up costs. This volume increase is incorporated in table A and is distributed between the budget components relating to core activities and support to operational activities of the United Nations.

(b) Programme support and development activities

United Nations Volunteers

5. The total number of serving United Nations Volunteer (UNV) specialists as of 31 December 1995 was 2,190. Of this total, 295 were assigned to different United Nations missions under specific memoranda of understanding and to humanitarian relief activities under trust fund arrangements. UNV headquarters support relating to these programmes is covered from the support cost being earned and is managed under a UNV extrabudgetary account. The number of serving volunteers as applicable to the staffing formula was thus 1,895 or 895 over the base of 1,000. Compared with the number of volunteers serving at 31 December 1994, this represents an increase of 41. This would translate into 0.6 staffing units if the approved staffing formula for adding supplementary UNV headquarters staff were to be applied.

6. In paragraph 45 of its decision 95/28, the Executive Board requested the Administrator to review the staffing formula and to report on this in the context of the budget proposals for the 1998-1999 biennium. Pending that review, the Administrator proposes that the application of the staffing formula be deferred until after the review.

Table A. SUMMARY OF REVISED 1996-1997 GROSS BIENNIAL BUDGET ESTIMATES INDICATING AMOUNTS ATTRIBUTABLE TO CATEGORY OF COST INCREASE/(DECREASE)
(Thousands of United States dollars)

Source of funds/ appropriation line	1996-1997 Approved appropriations	Volume increase/ (decrease)	Cost increase/(decrease)				Total increase (decrease)	1996-1997 Revised estimates
			Various cost adjustments	Currency adjustment	Inflation adjustment	Total cost adjustment		
I RESOURCES OF UNDP								
A UNDP core activities								
Headquarters	142,247.6	0.0	449.7	(295.8)	1,919.5	2,073.4	2,073.4	144,321.0
Country offices a/	233,723.0	1,708.8	481.9	(4,720.4)	1,314.0	(2,924.5)	(1,215.7)	232,507.2
Gross UNDP core activities	375,970.6	1,708.8	931.6	(5,016.2)	3,233.5	(851.1)	857.7	376,828.2
Estimated income b/	38,000.0	0.0	0.0	0.0	0.0	0.0	0.0	38,000.0
Net UNDP core activities	337,970.6	1,708.8	931.6	(5,016.2)	3,233.5	(851.1)	857.7	338,828.2
B Programme support and development activities (PSDA)								
Support to the operational activities of the United Nations c/	98,986.7	891.2	194.9	(1,909.4)	592.8	(1,121.7)	(430.5)	98,556.3
Programme development activities	30,512.5	0.0	124.6	(116.0)	307.6	316.2	316.2	30,828.7
Project/programme implementation gross/net appropriations								
DSS	7,223.4	0.0	0.0	0.0	0.0	0.0	0.0	7,223.4
IAPSO	4,562.6	0.0	8.5	(124.2)	0.0	(115.7)	(115.7)	4,446.9
UNV	32,769.5	0.0	1,856.9	(819.7)	801.0	1,838.2	1,838.2	34,407.7
National execution	3,832.3	0.0	4.9	0.0	38.1	43.0	43.0	3,875.3
Total project/programme implementation services	48,387.8	0.0	1,873.3	(943.9)	839.1	1,565.5	1,565.5	49,953.3
Programme support d/	2,300.0	0.0	0.0	0.0	0.0	0.0	0.0	2,300.0
Total programme support and development activities	178,187.0	891.2	2,189.8	(2,969.3)	1,539.5	780.0	1,451.2	179,638.3
C Total resources of UNDP								
Gross estimates	554,157.6	2,400.0	3,121.4	(7,985.5)	4,773.0	(91.1)	2,308.9	556,466.5
Estimated income	38,000.0	0.0	0.0	0.0	0.0	0.0	0.0	38,000.0
Net estimates	516,157.6	2,400.0	3,121.4	(7,985.5)	4,773.0	(91.1)	2,308.9	518,466.5
II RESOURCES OF FUNDS								
UNCDF	9,060.6	0.0	22.9	0.0	124.3	147.2	147.2	9,207.8
UNRFNRE & UNFSTD	1,133.1	0.0	3.7	0.0	14.4	17.1	17.1	1,147.2
UNSO	7,242.0	(251.6)	17.9	(25.0)	47.3	40.2	(211.4)	7,030.6
UNIFEM	5,216.8	0.0	12.8	0.0	65.1	77.9	77.9	5,294.7
Total resources of Funds	22,649.5	(251.6)	56.3	(25.0)	251.1	282.4	30.8	22,680.3
III GRAND TOTAL								
Gross estimates	576,807.1	2,148.4	3,177.7	(8,010.5)	5,024.1	191.3	2,339.7	579,146.8
Estimated income	38,000.0	0.0	0.0	0.0	0.0	0.0	0.0	38,000.0
Net estimates	538,807.1	2,148.4	3,177.7	(8,010.5)	5,024.1	191.3	2,339.7	541,146.8

a/ See footnote c

b/ Includes host Government cash contributions towards office costs

c/ Represents 29 per cent of the total estimates for country offices and estimates relating to OUNS

d/ Represents UNDP contribution to the Consultative Group on International Agricultural Research and UNDP-UNSO/UNEP partnership

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2. Resources of the Funds

7. The Administrator does not propose volume adjustments with respect to UNCDF, UNRFNRE/UNFSTD and UNIFEM. In the case of UNSO, a volume reduction of $0.3 million relates to the closure of the two regional offices in Burkina Faso and Kenya.

B. Cost adjustments

1. Resources of UNDP

8. Cost adjustments relating to the budget for core activities amount to a total decrease of $0.9 million or 0.2 per cent. A currency release of $5.0 million is partly offset by an adjustment for inflation of $3.2 million and various cost adjustments of $0.9 million.

9. The currency release relates to the impact of the difference in exchange rates between April 1995, when the original 1996-1997 estimates were formulated, and May 1996, the basis for this first revision of the estimates. The release reflects the general strengthening of the United States dollar.

10. The adjustment for inflation reflects changes in United Nations projections at Headquarters as well as revised field projections. At Headquarters, the general rate of inflation is kept unchanged at 2.6 per cent. The increase of $1.9 million is a result of the higher inflation projections relating to post adjustment and General Service salaries. The upward adjustment of field projections relate in particular to the expected inflationary impact of the appreciation of the United States dollar. Increased inflation partly offsets the currency release mentioned in paragraphs 8 and 9 above.

11. Various cost adjustments of $0.9 million relate to the implementation of the revised scale of pensionable remuneration for Professional and higher categories that became effective in November 1995.

12. Similar currency, inflation and other cost adjustments have been applied to the appropriation lines pertaining to programme support and development activities. All are reflected in table A. In the case of UNV, total cost adjustments amount to $1.6 million. This incorporates an adjustment of $1.8 million relating to the revised scale of pensionable remuneration, the cost of approved support staff in the field, General Service staff in Geneva and the one-time requirement to cover commutation of annual leave and repatriation grants relating to staff not moving to Bonn and separating. A currency release of $0.8 million partly offsets this increase. An increase of $0.6 million in inflation is based on the United Nations revised inflation rates for Geneva.

2. Resources of the Funds

13. The original budget estimates for UNCDF, UNRFNRE/UNFSTD, UNSO and UNIFEM have been reviewed for cost adjustments in a manner that is similar to the appropriation lines pertaining to UNDP resources. Currency, inflation and other cost adjustments are reflected in table A.

II. OTHER MATTERS

A. Contributions by host Governments towards local office costs

14. In the context of his original submission of the 1996-1997 biennial budget, the Administrator made proposals regarding the principles and criteria for determining the amounts to be reimbursed by host Governments as contributions towards the cost of country offices during the next programming period. In accordance with the provisions of the standard basic agreements that govern UNDP operations in programme countries, host Governments contribute towards such cost. The Executive Board, at the time, decided to review the matter at its third regular session 1996. Accordingly, and for ease of reference, the Administrator repeats his proposal below while providing updated information and clarification where applicable.

15. In its decision 82/18, the Governing Council recognized that local economic conditions might impact on the ability of programme countries to meet their obligation to cover office costs. In its decision 84/9, therefore, the Council authorized the Administrator to waive in part the obligation to contribute when economic conditions of countries concerned so warrant. During the period 1992-1996 (fifth programme cycle), countries have been granted waivers as follows:

1989 per capita GNP (United States dollars)	Waiver percentage
3,001 and above a/	0
1,501-3,000	25
751-1,500	50
0-750	75

a/ $4,201 and above for small island countries with population of less than 2 million.

16. Summary information on contributions received in 1994-1995 is provided below:

Region	Contributions received as a per cent of established targets	Contributions received as a per cent of local office costs
Africa	23	6
Arab States	85	41
Asia and the Pacific	86	31
Latin America and the Caribbean	71	36
Europe and the Commonwealth of Independent States	30	17

17. With regard to the new programming period, starting 1997, the Administrator proposes that the basic principles of the waiver system be maintained on the understanding that the waiver bands and the base year for per capita gross national product (GNP) data are adjusted in line with Executive Board decision 95/23 on successor programming arrangements. These changes are reflected below and will apply to the second year of the 1996-1997 biennial budget.

1994 per capita GNP a/ (United States dollars)	Waiver percentage
4,701 and above	0
1,501-4,700	25
751-1,500	50
0-750	75

a/ 1994 per capita GNP will be based on latest available data.

18. Countries with 1994 per capita GNP of $4,701 and above are expected to reimburse UNDP for all office-related costs, including costs relating to international staff and international travel. Consistent, however, with Governing Council decision 91/29, the Administrator proposes to maintain the principle that such countries with UNDP programme activities (financed from all sources of financing) that exceed a certain level could be provided with a resident representative and a second international staff member financed from the UNDP budget. During the fifth programming cycle, it was possible to provide

countries with such programmes exceeding $15 million with a resident representative and a second international staff member and countries with a programme exceeding $10 million with a resident representative. If an adjustment for inflation were to be incorporated, these thresholds would be set at $12 million and $8 million respectively for a three-year period. Consistent with similar provisions in Executive Board decision 95/23, countries exceeding the threshold of $4,701 would continue to be granted waivers for a period of three years, following the year of graduation.

19. Countries that fall in any of the remaining three categories are expected to contribute towards part of all office costs, excluding the costs of salaries and allowances for international staff, international business travel, and hospitality. The actual cash targets for contributions will be determined on the basis of the respective waiver percentages that are indicated above. These cash targets will be adjusted for the contributions that Governments provide in kind.

20. In its decision 84/9, the Governing Council authorized the Administrator to establish from 1 January 1985 an "accounting linkage" between voluntary contributions, and contributions to local office costs in such a manner that contributions are first applied against the obligations towards local office costs. The Administrator proposes that this provision continue to apply.

21. The Administrator attaches considerable importance to the payment of contributions towards local office costs in his ongoing endeavour to reduce the net biennial budget expenditures of the organization. He urges all programme countries to make all efforts to meet in full their respective obligations towards UNDP local office costs. Resident representatives will continue to pursue actively the collection of the contributions in close consultation with host Governments.

B. Assessment of the impact of decision 95/28 on UNDP capacity

22. In its decision 95/28, the Executive Board requested the Administrator to provide an assessment of the impact of that decision on the organizational capacity of UNDP, in particular the adequacy of human resources both at headquarters and country level, taking into account the comparative advantage of the Programme and decision 95/23 on the successor programming arrangements.

23. The adjustments that were incorporated in the 1996-1997 biennial budget were still being implemented at the time of the preparation of the present document. This naturally affects the extent to which a formal assessment, at this point, can lead to meaningful conclusions. Furthermore, the Administrator believes that a formal assessment would be incomplete if the results and the impact of the accelerated change process, currently under way, were not taken into account. He referred to this process in his presentation to the Executive Board at its annual session 1996. It is realistic to assume that the results will have a further bearing on the manner in which 1996-1997 staff and other resources will be applied, both at headquarters and in country offices. As an example, the change process will deal with issues such as the macro components of management and organizational structure, including the relationship between

headquarters and country offices. It will also deal with the "Country office of the future", including operational modalities and the realistic structure of the various types of country offices.

24. Against this background, the Administrator believes that it will require additional time to put the assessment in the appropriate context of change. He proposes, therefore, to incorporate such assessment in his reporting on the outcome of the change process, as well as in the context of his submission of the next biennial budget proposals.

C. Reserves for separations and transitional measures

25. In its decision 95/28, the Executive Board recognized that the smooth implementation of the 1996-1997 budget strategy would entail transitional costs. The Board, therefore, approved the proposals of the Administrator to establish reserves for budgetary separations and transitional measures.

26. The reserve for budgetary separations was established at $14 million to augment resources in the current budgets to cover the non-recurrent costs associated with a number of agreed separations, both at headquarters and in the field. These separations were necessary as a direct result of the reduction of posts incorporated in the 1996-1997 biennial budget. The Administrator mentioned at the time of his proposals that the reductions could be implemented only to a limited extent through normal attrition, turn-over, reassignments and a recruitment freeze. The reserve is now fully committed and obligated and covers the separation of 61 international Professional staff, 51 General Service staff at headquarters and 214 locally recruited staff in country offices. Owing to the modality of payment in instalments for some of the separation packages, funds will be disbursed over time, with 94 per cent disbursed before the end of the present biennium.

27. A reserve of $8.4 million was established, and fully covered by 1994-1995 budget savings, to accommodate the non-recurrent costs associated with: (a) transitional salary costs resulting from the need to plan the timing of separations so that the transition can be managed in an orderly fashion, thereby avoiding unnecessary interruptions. The separation programme is under way and the Administrator estimates that the full earmarked amount of $5.0 million is required and will be largely disbursed by the end of 1996; (b) the implementation of the management of change process, to which reference was made in paragraph 23 above. The earmarked amount of $1.0 million is fully committed and is expected to be fully disbursed by the end of 1996; (c) the Career Transition Unit (CTU), set up in the Office of Human Resources (OHR) to strengthen temporarily the capacity to provide staff concerned with professional and confidential counselling on a range of career issues, including agreed separations. The earmarked amount of $0.4 million is expected to be fully disbursed by the end of 1996; and (d) the accelerated development and implementation of information systems under the Integrated Programme Management (IPM) project and the Integrated Management Information System (IMIS) project. The earmarked amount of $2.0 million supplements resources in the recurrent budget and is expected to be fully disbursed by the end of 1996.

D. Pilot arrangements relating to reclassifications

28. In its decision 92/37, the Governing Council granted the Administrator a one-year authority to review, between biennial budget submissions, the job classifications for posts in the P-1 to P-5 range and to make changes as necessary provided that there was no adverse financial implication and that the overall distribution of posts by level was maintained. In 1993 and 1995, the Administrator informed the Governing Council and Executive Board respectively, that he had not exercised that authority. Reclassifications had been dealt with in the context of the budget strategies since 1992 and presented for approval by the Governing Council and Executive Board in the respective budget proposals.

29. The Administrator believes that a continuous review and updating of post classifications is important to reflect and implement the restructuring of units and their functions. This is particularly important in a context of rapid change. He proposes therefore that the authority granted to him by decision 92/37 on a pilot basis, be granted on a permanent basis, and that, in future, he inform the Executive Board, in the context of regular budget submissions, as and when he has exercised the authority.

E. Office of United Nations System Support and Services (OUNS)

30. In its decision 96/21, the Executive Board requested the Administrator to report to the Board on efforts to follow up on General Assembly resolution 50/120, in particular paragraph 38 thereof, regarding the support that the United Nations system, including the funds and programmes, specialized agencies and the Secretariat, could provide, as appropriate, to the resident coordinator system in view of the fact that OUNS is serving as the focal point in support of the resident coordinator system.

31. The Administrator has brought decision 96/21 formally to the attention of the funds and programmes, specialized agencies and the Secretariat and has requested them to consider what kind of support the respective organizations could provide, be it in the form of staff secondments to OUNS, financing of the resident coordinator system activities at the country level, or any other means that the organizations consider relevant to the strengthening of their common endeavour.

32. With regard to the organizational structure of OUNS, the Administrator, at this stage, does not propose changes. This is without prejudice to general changes in organizational structures in UNDP that may result from the ongoing change process.

III. EXECUTIVE BOARD ACTION

33. The Executive Board may wish to:

1. Approve, with respect to the revised budget estimates for the 1996-1997 biennium of the United Nations Development Programme and the funds administered by the United Nations Development Programme contained in document

DP/1996/29, a revised appropriation in the amount of $579,146,800 gross, to be allocated from the resources indicated in table B of the document, to finance the revised 1996-1997 biennial budget and resolve that the income estimates in the amount of $38,000,000 shall be used to offset the gross appropriation, resulting in a net appropriation of $541,146,800;

2. Approve the proposals of the Administrator contained in paragraphs 3 and 4 relating to the establishment of a country office in Bosnia and Herzegovina;

3. Take note of the Administrator's reports on: (a) the assessment of the impact of decision 95/28 on the organizational capacity of UNDP, in particular the adequacy of human resources both at headquarters and country level; (b) the use and status of the reserves that were established relating to staff separations and transitional measures; (c) pilot arrangements relating to reclassifications; (d) the Office of United Nations System Support and Services; and (e) the deferrment of the application of the staffing formula applied to the United Nations Volunteers;

4. Approve the proposals of the Administrator contained in paragraphs 14 to 21 of document DP/1996/29 relating to the principles and criteria for determining the amounts to be reimbursed by host Governments as contributions towards the cost of country offices;

5. Decide that in the case of countries with 1994 per capita gross national product of $4,701 and above:

(a) Where programme activities of the United Nations Development Programe exceed $12 million financed from all sources of financing over a three-year period, a resident representative and a second international staff member could be provided from the biennial budget of the Programme;

(b) Where programme activities of the United Nations Development Programme exceed $8 million financed from all sources of financing over a three-year period a resident representative could be provided from the biennial budget of the Programme;

6. Decide that, in line with similar provisions of decision 95/23, countries exceeding the threshold of $4,701 per capita GNP will continue to be granted waivers for a period of three years, following the year of graduation;

7. Authorize the Administrator to maintain an accounting linkage between voluntary contributions from host Governments and contributions to local office costs in such a manner that contributions are first applied towards the obligations towards local office costs;

8. Stress the need for programme countries to meet in full their obligations towards the local office costs of the United Nations Development Programme;

9. Authorize the Administrator to implement reclassifications in the P-1 to P-5 range, provided that the aggregate effect of the changes in the classified level of posts is subject to a zero-sum limitation.

Table B UNDP revised budget proposals for the 1996-1997 biennium, showing estimated extrabudgetary income from external sources
(Thousands of United States dollars)

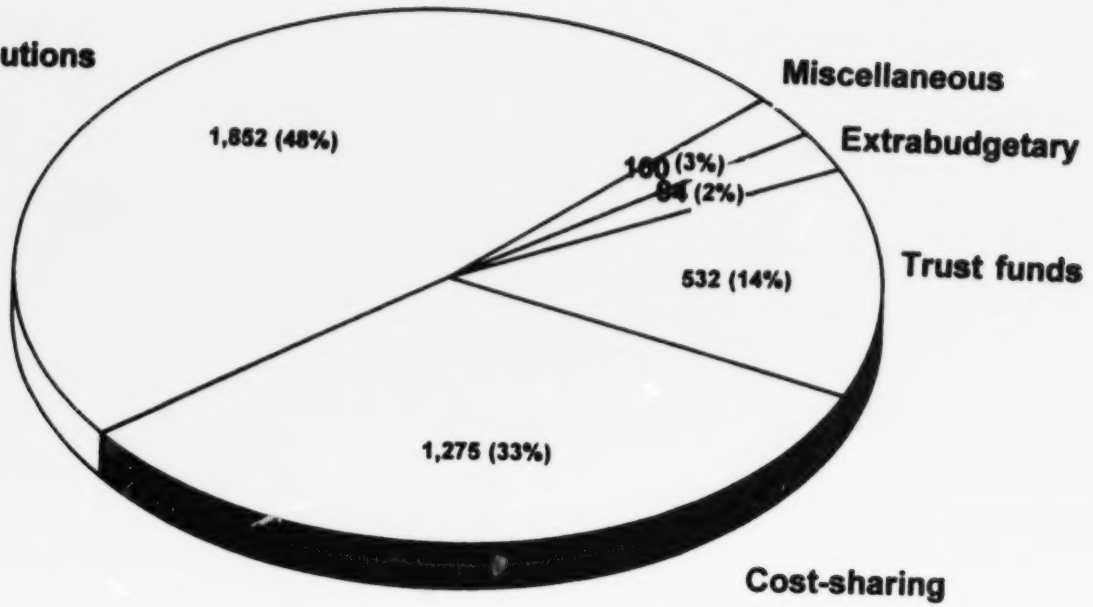
		Appropriation estimates	Estimated extrabudgetary income	Total gross/net estimates
I RESOURCES OF UNDP				
A UNDP core activities	a/			
Headquarters	b/	144,321 0	36,479 4	180,800 4
Country offices		232,507 2	45,267 5	277,774 7
Gross UNDP core activities		376,828 2	81,746 9	458,575 1
Estimated income		38,000 0	0 0	38,000 0
Net UNDP core activities		338,828 2	81,746 9	420,575 1
B Programme support and development activities				
Programme development activities		30,828 7	0 0	30,828 7
Support to the operational activities of the United Nations		96,556 3	0 0	96,556 3
Project/programme implementation services				
DSS		7,223 4	0 0	7,223 4
IAPSO		4,446 9	3,911 4	8,358 3
UNV		34,407 7	2,999 7	37,407 4
National execution		3,875 3	0 0	3,875 3
Total project/programme implementation services		49,953 3	6,911 1	56,864 4
Programme support		2,300 0	0 0	2,300 0
Total programme support and development activities		179,638 3	6,911 1	186,549 4
C Total resources of UNDP				
Gross resources		556,466 5	88,658 0	645,124 5
Estimated income		38,000 0	0 0	38,000 0
Net resources		518,466 5	88,658 0	607,124 5
II RESOURCES OF FUNDS				
A UNCDF		9,207 8	0 0	9,207 8
B UNRFNRE and UNFSTD		1,147 2	324 8	1,472 0
C UNSO		7,030 8	1,207 3	8,237 9
D UNIFEM		5,294 7	310 1	5,604 8
Total resources of Funds		22,680 3	1,842 2	24,522 5
III TOTAL UNDP APPROPRIATIONS				
Gross appropriations		579,146 8	90,500 2	669,647 0
Estimated income		38,000 0	0 0	38,000 0
Net UNDP appropriations		541,146 8	90,500 2	631,647 0

a/ The Administrator is permitted to redeploy between the country offices and headquarters appropriation lines up to a maximum of 5 per cent.

b/ Extrabudgetary income represents income from external sources, exclusive of reimbursements from non-core units; these are included in the appropriation estimates of the non-core units.

Annex

UNDP INCOME BY SOURCE OF FUNDS
1996-1997 (projected)



Total income: $3,853 million

in millions of United States dollars